

Unrelated trade or business; senior citizens' center; sale of appliances. The sale of heavy-duty appliances to senior citizens by an exempt senior citizens' center is unrelated trade or business.

ISSUE

Is the sale of heavy duty appliances, such as dishwashers, by a senior citizens' center exempt from federal income tax under section 501(c)(3) of the Internal Revenue Code unrelated trade or business within the meaning of section 513?

FACTS

The purpose of the organization and basis for its exemption under section 501(c)(3) of the Code as a charitable organization is to serve the recreational, intellectual, social, physical, and health needs of senior citizens, primarily age 65 and over. The organization has established a service center to provide information, referral, and counseling services relating to health care, housing, education, finances, and employment. In addition to providing facilities for recreational activities such as dances, picnics, and card games, the center is used as a meeting place for senior citizens. All recreational facilities are uniquely suited to the needs of the elderly. Membership in the organization is not necessary in order to obtain services or participate in its activities.

As one of its activities, the organization regularly sells heavy duty appliances, such as dishwashers, to senior citizens. These appliances are obtained from wholesale commercial distributors and are sold by the organization at prices that are comparable to the prices of commercial retail distributors in that they are designed to generate a profit.

LAW AND ANALYSIS

Section 513(a) of the Code generally defines the term 'unrelated trade or business' as any trade or business the conduct of which is not substantially related (aside from the need of an organization for income or funds or the use it makes of the profit derived) to the exercise or performance by an organization of its exempt purposes or functions.

Section 1.513-1(d)(2) of the Income Tax Regulations states that a trade or business is 'related' to exempt purposes, in the relevant sense, only where the conduct of the business activities has causal relationship to the achievement of exempt purposes (other than through the production of income) and it is 'substantially related' for purposes of section 513 of the Code only if the causal relationship is a substantial one. Thus, for the conduct of a trade or business to be substantially related to

purposes of which exemption is granted, the production or distribution of the goods or the performance of the services from which the gross income is derived must contribute importantly to the accomplishment of those purposes.

The regular sale of heavy duty appliances, such as dishwashers, an activity that is carried on for the production of income from the sale of goods, constitutes a trade or business for purposes of section 513 of the Code. Although the organization's sales activities are directed to senior citizens, these activities do not contribute importantly (other than through the production of income) to the accomplishment of the organization's charitable purposes.

Rev. Rul. 81-61, page 44, this Bulletin, describes the operation of a barber shop and beauty shop by a senior citizen center. Rev. Rul. 81-61 holds that the operation of the barber and beauty shops is not unrelated trade or business because the provision of personal grooming services in a place convenient to senior citizens, many of whom have physical impairments resulting in a limited ability to travel, contributes importantly to achievement of the organization's exempt purpose of meeting the psychological and health needs of the elderly.

Unlike the personal grooming services described in Rev. Rul. 81-61, the sale of heavy duty appliances by the senior citizens' center does not significantly relieve a form of distress that aged persons suffer. Unlike personal grooming services, appliances need not be purchased in person, but may be obtained by phone or mail or by someone acting on behalf of the purchaser. Also in contrast with personal grooming services, heavy duty appliances are usually not purchased on a continuing basis, but rather are only occasional purchases. Therefore, the sale of heavy duty appliances by the senior citizens' center generally spares aged persons only an infrequent inconvenience and does not contribute importantly to the center's exempt purpose.

HOLDING

The sale of heavy duty appliances, such as dishwashers, by a senior citizens' center is unrelated trade or business within the meaning of section 513 of the Code.